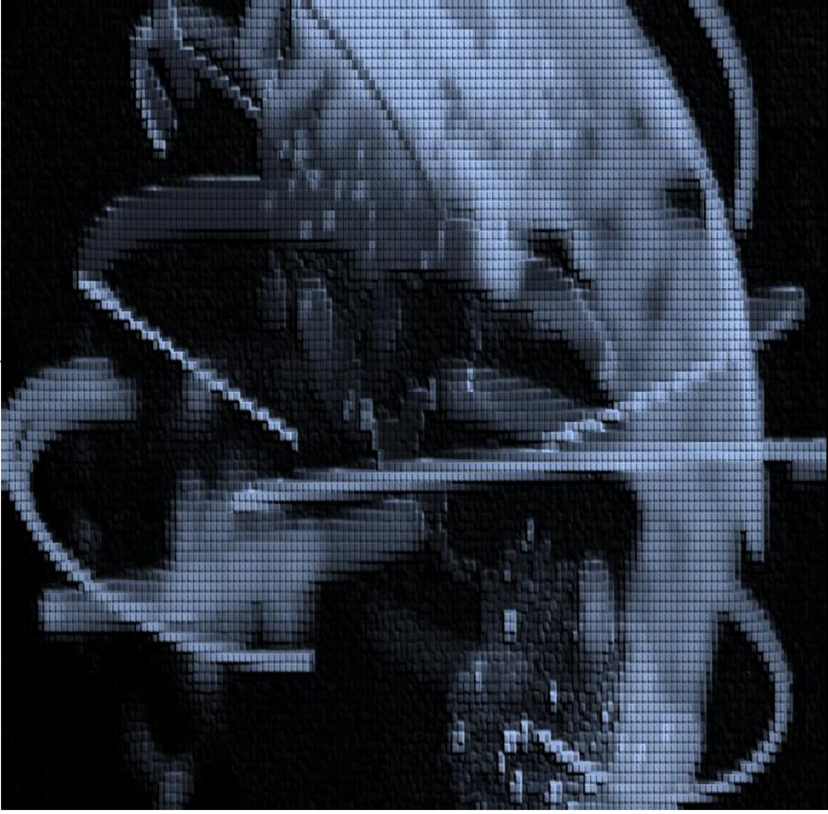

Fee Distribution as Financial Indicators of Ethereum and other Proof-of-Stake Chain Economies

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June 2025

Key Takeaways

ETHEREUM

01 **Ethereum, a PoS blockchain, is under considerable competition from peer smart contract platforms such as Solana and Tron.**

- Ethereum's competitive environment is notably different from Bitcoin, which in recent years has carved out a distinct narrative as a non-sovereign store of value, like digital gold.
- Ethereum, by contrast, is judged on its transactional throughput and monetization efficiency—placing it squarely in the category of high-performance economic platforms.

02 **In PoS networks, token holders act as both investors and network security providers, relying on fees and supply dynamics—not cash flows—for value accrual.**

- Inflationary issuance can dilute holders unless offset by meaningful transaction fee burns, which mimic stock buybacks by reducing supply and increasing token scarcity.
- Only a few PoS networks (i.e. Tron) consistently generate enough fees to achieve net-deflationary issuance, offering long-term holders non-dilutive returns and preserving capital value.

03 **Ethereum must reduce its transaction fees and increase transaction throughputs to appear attractive to long-term investors given its current profitability and highly competitive peers.**

- For Ethereum to retain current levels of security and become substantially more attractive, transaction throughput must increase 150x and fees must be reduced to approx. 1/35th of current levels. Only under such a regime can Ethereum potentially achieve sustained deflationary status.
- If Ethereum can meet or exceed a -2% net supply growth benchmark, its financial model becomes long-term bullish, bringing the ETH price target to up to $7,500.

1. Introduction: Toward an On-Chain GDP Model

Ethereum, a Proof-of-Stake (PoS) blockchain, is under considerable competition from peer smart contract platforms such as Solana, Tron, and BNB Chain. This competitive environment is notably different from Bitcoin, which in recent years has carved out a distinct narrative as a non-sovereign store of value, like digital gold. Ethereum, by contrast, is judged on its transactional throughput and monetization efficiency—placing it squarely in the category of high-performance economic platforms.

Given this competitive nature, we can compare ETH and other PoS network tokens as innovative enterprises, competing on user / developer acquisition and infrastructure efficiency. These platforms generate income in the form of fees and distribute rewards to validators—akin to revenue-generating firms distributing earnings to shareholders. Alternatively, PoS chains can be portrayed as competing digital economies, where aggregate transaction fees reflect the level of economic activity (akin to GDP), and inflationary token issuance represents fiscal incentives, analogous to public sector subsidies or interest payments.

In both views, economic output is reflected in the aggregate transaction fee volume. Just as GDP represents the value of all goods and services produced, a blockchain's "crypto GDP" can be measured by the fees paid to use block space. Below, we illustrate how the market capitalization relates to annualized fees paid.

Table 1

Blockchains	Total Fees	Market Capitalization (MC)	Price Earnings Ratio (MC / Annualized Fees)
Ethereum	$1.52bn	$220.00bn	144x
Tron	$0.60bn	$22.68bn	37x
Solana	$1.02bn	$64.04bn	62x
Aggregate	$3.15bn	$306.63bn	89x

Data as of March 31st, 2025. Source: Artemis, the data is the trailing 12 months blockchain activity between April 2024 to March 2025.

2. Path to Deflationary Tokenomics

In PoS networks, token holders assume a dual role: they are both investors and economic participants who secure the network. Unlike traditional businesses, PoS tokens do not generate revenue through cash flows or profits. Instead, their value accrual mechanisms are tightly linked to:

1. Fees Generated by Network Usage
2. Token Supply Dynamics (Inflation vs. Burn)

If a PoS token is inflationary, validators receive newly issued tokens as block rewards from staking, diluting the value of existing holders—unless fee generation is sufficient to offset this inflation. When fees are burned:

- A portion of the fees is permanently removed from the supply.
- This reduces effective issuance—or even turns it negative—enhancing the scarcity of the token.
- As a result, long-term holders benefit from non-dilutive income growth—similar to stock buybacks.

This is especially important in PoS systems, where token holders take long-term principal risk by locking up a large share of the supply. A deflationary or net-neutral issuance model provides economic assurance that their purchasing power and capital base won't be eroded.

There are only a handful of PoS networks that have been able to generate a meaningful amount of transaction fees relative to their market capitalization, bringing the token issuance net deflationary from time to time and benefiting the validator-investors (see Table 2).

Table 2

Coins	Annualized Token Issuance Rate	Annualized Fees / MC	Real Inflation Rate
ETH	0.78%	0.69%	0.49%
TRX	1.95%	2.66%	-1.79%

Data as of March 31, 2025. Sources: Artemis, Etherscan, Tronscan. The data reflects trailing 12-month blockchain activity from April 2024 to March 2025. Disclaimer: The annualized token issuance rate is inferred based on the total number of new tokens issued by the network, divided by the token supply at the start of the period. Tron reportedly generated approximately $3 billion in network revenue during this period, according to Token Terminal. The annualized TRX fees refer to the total gas fees reported by Artemis, representing fees paid by participants for network compute resources such as bandwidth and energy.

It is important to recognize that each blockchain employs distinct validator compensation models, resulting in varying sources of returns that make cross-token comparisons inherently challenging. Tron (TRX), for instance, sustains a strong deflationary environment by burning the majority of network fees, offering consistent benefits to both short and long term holders. By contrast, while Ethereum (ETH) and Solana (SOL) have seen brief periods of deflation, their overall monetary policies remain structurally inflationary. In Ethereum's case, 100% of base fees are burned, while priority (tip) fees are paid directly to validators by users. Notably, for Ethereum to reach deflationary dynamics like Tron, it would need to generate up to 4 times its current annualized fee revenue relative to its market capitalization, assuming if Ethereum adopted a similar fee burning mechanism as Tron.

3. The Role of ETH Demand and Price Dynamics

The current Ethereum development roadmap envisions scaling throughput through the implementation of L2 rollups, Native Rollups, and Beam Chains. Simultaneously, Ethereum aims to reduce transaction costs—competing in the low-fee zone with elastic demand use cases including enterprise payments, microtransactions, and consumer applications (see previous article). This positions Ethereum in direct competition with low-cost, high-throughput chains like Tron and Solana.

While lower transaction fees benefit users and unlock new demand segments, they also reduce the base fee revenue burned under EIP-1559. This creates a challenge for Ethereum's monetary policy and security assumptions. Since validators earn rewards from tips and MEV (while base fees are burned), a significant reduction in per-transaction fees (e.g., 10x to 40x) could lower staking yields, making ETH less attractive as an income-generating asset under the current inflation schedule.

Assuming Ethereum targets a competitive fee level of ~$0.10 per transaction and achieves a -2% annual supply growth rate (taking TRX supply change as a benchmark), Ethereum would need to generate approximately $6bn in annual fee revenue. At $0.10 per transaction, this implies a throughput of 60 billion transactions annually, or ~2,000 TPS.

Conclusion: Ethereum Price Prediction

This forecast assumes Ethereum's transaction count grows roughly 2x the current aggregate of all top PoS networks combined (i.e. Tron, BNB Chain, Solana)—a multi-year, multi-phase effort that depends heavily on scaling solutions, user growth, and enterprise adoption.

Therefore, Ethereum's future economic health depends not just on reducing fees, but also on ensuring that total transaction volume scales rapidly enough to maintain validator incentives and ETH's deflationary nature.

- For Ethereum to retain current levels of security and become substantially more attractive, transaction throughput must increase 150x and fees must be reduced to 1/35th of current levels. Only under such a regime can Ethereum potentially achieve sustained deflationary status.

- This aligns with researcher Justin Drake's thesis that "what is used must go up"—meaning that utility drives price over time.

- In the short term, this transition imposes significant economic bearing on validator income and the staking economy.

- If Ethereum can meet or exceed a -2% net supply growth benchmark, the model becomes long-term bullish, as scarcity strengthens ETH's store-of-value properties.

- This transition has direct implications for future staking yields, especially as execution layer rewards diminish under low-fee environments.

- While the current aggregate crypto sector trades at a ~90x P/E multiple, a longer-term normalization toward 30–70x may emerge as Ethereum and other digital assets integrate more deeply into the global financial system. This would align their valuation multiples with high-growth, tech-enabled enterprises.

Suppose the Ethereum network achieves an annualized fee of $6bn, the market capitalization of ETH will trend between $300-900bn (assuming 50-150x P/E multiple) and each ETH trending between $2,500-$7,500.

Contact

For further information regarding investment opportunities in Ethereum please contact Laser Digital Asset Management at am@laserdigital.com

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